

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
Annual formula rate update and revenue	:	Docket No. 16-0259
requirement reconciliation authorized by Section	:	
16-108.5 of the Public Utilities Act.	:	

Rebuttal Testimony of
CHAD A. NEWHOUSE
Manager,
Revenue Policy
Commonwealth Edison Company

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

3 **Q. What is your name and prior participation in this docket?**

4 **A.** My name is Chad A. Newhouse. I am the Manager, Revenue Policy, of Commonwealth
5 Edison Company (“ComEd”). I previously submitted pre-filed direct testimony in this
6 docket. My background, professional qualifications, duties, and responsibilities are
7 unchanged.

8 **B. Purpose of Rebuttal Testimony**

9 **Q. What is the purpose of your rebuttal testimony?**

10 **A.** The purpose of my rebuttal testimony is to respond to the direct testimony of Attorney
11 General (“AG”) witness Michael L. Brosch; and to the direct testimony of Staff of the
12 Illinois Commerce Commission (“Staff”) witnesses Richard W. Bridal, Janis Freetly and
13 Scott Tolsdorf.

14 **C. Summary of Conclusions**

15 **Q. What are the primary conclusions of your rebuttal testimony?**

16 **A.** In summary, I present ComEd’s updated rate base and operating expenses. Considering
17 the full record, the Illinois Commerce Commission (“Commission” or “ICC”) should
18 make the following findings and conclusions:

- 19 (1) (a) ComEd’s 2015 Reconciliation Revenue Requirement based upon actual 2015
20 costs is \$2,410,888,000 (ComEd Exhibit (“Ex.”) 9.01, Sch FR A-1 REC, line 23);
21 (b) ComEd’s 2017 Initial Rate Year Revenue Requirement is \$2,570,126,000
22 (ComEd Ex. 9.01, Sch FR A-1, line 23); and (c) ComEd’s 2017 Rate Year Net

Revenue Requirement, to go into effect in January 2017 is \$2,650,634,000
(ComEd Ex. 9.01, Sch FR A-1, line 36).

(2) AG witness Mr. Brosch's proposal to disallow costs associated with defending and settling a lawsuit related to the Telephone Consumers Protection Act ("TCPA") should be rejected because those costs were prudently incurred in the course of providing ComEd's delivery service and are reasonable in amount. ComEd Witness Ms. O'Brien (ComEd Ex. 11.0) testifies in detail about the prudence and recoverability of these costs.

(3) Staff witness Mr. Bridal's proposal to disallow costs associated with ComEd's employee recognition program should be rejected as these costs were prudently incurred in the course of providing ComEd's delivery service and are reasonable in amount.

(4) Staff witness Mr. Bridal's proposal to remove costs associated with the #SmartMeetsSweet smart meter education program should be rejected because all of the costs included in this case were incurred to provide education and awareness of smart meters in areas where these meters were being deployed - not goodwill or institutional advertising as Mr. Bridal claims.

(5) ComEd agrees in part with Staff witness Ms. Freetly's two recommendations related to changes in ComEd's debt schedules:

42 (i) ComEd agrees that only the balance of Construction Work in Progress
43 (“CWIP”) accruing Allowance for Funds Used During Construction
44 (“AFUDC”) that remains after accounting for short-term debt should be
45 removed from the long-term capital components of the capital structure,
46 although ComEd calculates a different remaining amount than Ms.
47 Freetly. ComEd also agrees with Ms. Freetly that such a change does not
48 have an impact on the revenue requirement;

49 (ii) ComEd disagrees that the annualized amortization amounts of ComEd
50 debt on 285 Schedule D-3 should reduce the unamortized debt discount by
51 the annualized amount. Per ICC Staff’s response to the ComEd-Staff 3.01
52 data request (ComEd Ex. 9.11), ICC Staff also agrees that no adjustment
53 in necessary.

54 (6) ComEd accepts Staff witness Mr. Tolsdorf’s recommendation to include specific
55 language pertaining to Rider PE – Purchased Electricity (“Rider PE”) and Rate
56 BESH – Basic Electric Service Hourly Pricing (“Rate BESH”) in the
57 Commission’s Order.

58 (7) Staff has made several other recommendations pertaining to Business Services
59 Company (“BSC”) costs and regulatory commission expenses that ComEd either
60 believes are appropriate or will not contest in this case in order to limit the issues

in this proceeding, without waiving any right to object to the same or similar proposals in a future proceeding.

(8) ComEd recommends additional changes to the revenue requirement to reflect corrections identified through the course of discovery for: a corrected facilities allocator, removal of a deferred tax asset associated with incentive compensation for a deferred stock bonus plan, and inclusion of other revenues related to Rider NAM – Non AMI Metering (“Rider NAM”).

(9) ComEd recommends an adjustment to the original cost determination originally presented in my direct testimony to account for the recommendations presented here in my rebuttal testimony. The Commission should find that the original cost of ComEd’s electric utility plant in service as of December 31, 2015, was \$18,436,015,000.

D. Itemized Attachments to Rebuttal Testimony

Q. What are the attachments to your rebuttal testimony?

A. The attachments to my rebuttal testimony are:

(1) **ComEd Ex. 9.01** contains the following applicable schedules and appendices of ComEd’s revenue requirement formula, populated with data reflecting ComEd’s 2017 Rate Year Net Revenue Requirement and its components for charges to become effective with the January 2017 monthly billing period:

- Revenue Requirement Formula Schedule (“Sch”) FR A-1, Sch FR A-1 - REC, Sch FR A-2, Sch FR A-3, Sch FR A-4, Sch FR B-1, Sch FR B-2, Sch FR C-1, Sch FR C-2, Sch FR C-3, Sch FR C-4, Sch FR D-1, Sch FR D-2, Appendix (“App”) 1, App 2, App 3, App 4, App 5, App 6, App 7, App 8, App 9, App 10, and App 11.

The amounts presented are largely the same as presented in ComEd Ex. 2.01, adjusted for the issues discussed later in my rebuttal testimony.

- (2) **ComEd Ex. 9.02** contains the workpapers that have been updated from ComEd Ex. 2.02 to support the schedules and appendices in ComEd Ex. 9.01:

- WP3, WP4, WP5, WP7, WP9, WP10, WP12, WP13, WP24 and WP25;

- (3) **ComEd Ex. 9.03** contains the following “Part 285” schedules that have been updated from ComEd Ex. 2.03 and are required to be submitted in a general rate case under Part 285 to support the revenue requirement calculations associated with Sch FR A-1 - REC:

- Part 285 Schedule As: A-2 RY, and A-4 RY;
- Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.5, B-2.6, B-8 RY, B-9, and B-10;
- Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.5, C-2.6, C-2.7, C-5 RY, C-5.4 RY, C-12, C-18, and C-23;
- Part 285 Schedule Ds: D-1 RY, D-2;

(4) **ComEd Ex. 9.04** contains workpapers that have been updated from ComEd Ex. 2.04 to support the Part 285 schedules included in ComEd Ex. 9.03:

- WPA-5, WPB-1, WPB-8RY, WPB-10, WPC-1a, and WPC-1h;

(5) **ComEd Ex. 9.05** contains the following Part 285 schedules that have been updated from ComEd Ex. 2.05 to support the 2017 Rate Year Net Revenue Requirement presented on Sch FR A-1 to the extent that they differ from the Part 285 schedules that support the 2015 Reconciliation Revenue Requirement presented in Sch FR A-1 - REC:

- Part 285 Schedule As: A-1 FY, A-2 FY,, and A-4 FY;
- Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.5 FY and B-8 FY;
- Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY;
- Part 285 Schedule Ds: D-1 FY

(6) **ComEd Ex. 9.06** contains workpapers that have been updated from ComEd Ex. 2.06 to support the Part 285 schedules included in ComEd Ex. 9.05:

- WPB-8 FY;

(7) **ComEd Ex. 9.07** contains a detailed bridge of the changes from ComEd's revenue requirement as presented in ComEd Ex. 2.01 to its revenue requirement as presented in ComEd Ex. 9.01.

(8) **ComEd Ex. 9.08** contains examples of educational materials that were distributed through the #SmartMeetsSweet initiative.

(9) **ComEd Ex. 9.09** contains ComEd's response to Staff Data Request ST 2.03.

(10) **ComEd Ex. 9.10** contains ComEd's response to AG Data Request AG 8.01.

(11) **ComEd Ex. 9.11** contains ICC Staff's response to ComEd-Staff 3.01 data request.

Unless otherwise noted, the schedules, appendices, and work papers in ComEd Exs. 9.01 through 9.11 have been prepared by me or under my direct supervision.

II. DELIVERY SERVICE REVENUE REQUIREMENT

A. 2015 Reconciliation Year Revenue Requirement

Q. Have you updated ComEd's 2015 Reconciliation Year revenue requirement?

A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1 REC, line 23, ComEd's updated 2015 Reconciliation Year revenue requirement is \$2,410,888,000. This amount incorporates adjustments, including adjustments to operating expense and rate base, as agreed to by ComEd and described later in my rebuttal testimony.

B. 2017 Initial Rate Year Revenue Requirement

Q. Have you updated ComEd's 2017 Initial Rate Year revenue requirement?

A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1, line 23, ComEd's updated 2017 Initial Rate Year Revenue Requirement is \$2,570,126,000. This amount incorporates adjustments, including adjustments to operating expense and rate base, as agreed to by ComEd and described later in my rebuttal testimony.

C. 2017 Rate Year Net Revenue Requirement

Q. Have you updated ComEd's 2017 Rate Year Net revenue requirement?

141 A. Yes. As shown in ComEd Ex. 9.01, Sch FR A-1, line 36, ComEd's updated 2017 Rate
142 Year Net Revenue Requirement is \$2,650,634,000. This amount incorporates
143 adjustments, including adjustments to operating expense and rate base, as agreed to by
144 ComEd and described later in my rebuttal testimony. This updated revenue requirement
145 is the basis for the delivery service rates that will go into effect in January, 2017.

146 **III. RATE BASE**

147 **A. 2015 Reconciliation Year Rate Base**

148 **Q. Have you updated ComEd's 2015 Reconciliation Year rate base?**

149 A. Yes. As I describe below, ComEd has made two adjustments to its 2015 Reconciliation
150 Year rate base. After making these adjustments, ComEd's updated 2015 Reconciliation
151 Year rate base is \$7,781,197,000. See ComEd Ex. 9.01, Sch FR B-1, line 28.

152 **B. Facilities Allocator**

153 **Q. In response to Staff Data Request ST 2.03 (ComEd Ex. 9.09), ComEd noted that the**
154 **facilities allocator used in WP 25, page 2, lines 1 and 2 was incorrect and**
155 **recommended an adjustment be made to reflect the correct allocator. Has this**
156 **adjustment been made?**

157 A. Yes. As stated in ComEd's response to Staff Data Request ST 2.03, ComEd has updated
158 WP 25, Page 2, Lines 1 and 2 with the correct facilities allocator of 88.61%. See ComEd
159 Ex. 9.02, WP 25, Page 2, Lines 1 and 2. The change to the facilities allocator also creates
160 a small impact to the net plant allocator. The net plant allocator (ComEd Ex 9.01 page 4
161 line 23) changes from 76.06% to 76.07%. This is because the increase to the facilities
162 allocator drives a higher distribution net plant value, increasing the numerator in the Net

Plant Allocator calculation. The net impact of these allocator changes results in an overall increase to the revenue requirement of \$496,000.

C. Accumulated Deferred Income Taxes - Incentive Compensation Deferred Stock Bonus Plan

Q. In response to AG Data Request 8.01 (ComEd Ex. 9.10), ComEd noted that a deferred tax asset related to “incentive compensation - deferred stock bonus plan” had not been properly removed from rate base and recommended that an adjustment be made to WP 4 to remove the jurisdictional costs of this line item. Has this adjustment been made?

A. Yes. As stated in ComEd’s response to AG Data Request 8.01, ComEd has updated WP 4, to remove the jurisdictional costs included in the current proceeding. This update decreased the overall revenue requirement by \$84,000. See ComEd Ex. 9.02, WP 4, Page 2, Line 1.

IV. OPERATING EXPENSES

A. Telephone Consumers Protection Act (TCPA) Settlement

Q. AG witness Mr. Brosch (AG Ex. 1.0, 3:51-6:111) proposes an adjustment to remove costs associated with a class action lawsuit alleging violation of the TCPA. Does ComEd agree with this adjustment?

A. No. Defending and settling lawsuits are prudent and reasonable costs that ComEd incurs in the course of providing delivery service. ComEd witness Ms. O’Brien (ComEd Ex. 11.0) testifies that the Commission has allowed recovery of settlement costs as long as the underlying activity relates to delivery service, the decision to settle is prudent, and the settlement amount is reasonable. Ms. O’Brien further testifies to each of those factors;

186 how the lawsuit related to delivery service, why the decision to settle was prudent and
187 why the amount of the settlement was reasonable.

188 **B. #SmartMeetsSweet Initiative**

189 **Q. What recommendation does Staff witness Mr. Bridal make in his direct testimony**
190 **regarding the #SmartMeetsSweet (“SMS”) AMI education initiative?**

191 **A.** Mr. Bridal (Staff Ex. 2.0, 3:47-52) recommends a proposed adjustment to disallow all
192 SMS costs not already self-excluded by ComEd.

193 **Q. Should the Commission accept this recommendation?**

194 **A.** No. Mr. Bridal proposes a disallowance for the entire cost of SMS primarily because he
195 believes the costs are unrecoverable goodwill or institutional advertising, and that they
196 were not necessary for the provision of delivery service. This theory is flawed. The SMS
197 initiative was designed to create awareness about smart meter installations and educate
198 customers on the smart-meter-enabled tools and programs available to allow customers to
199 manage their electric usage in a cost effective manner. The costs were prudently incurred
200 to deliver this information and are recoverable under the Illinois Public Utilities Act
201 (“Act”), 220 ILCS 5/9-225(3)(a), (3)(e), which states:

202 The following categories of advertising shall be considered allowable
203 operating expenses for gas, electric, water, or sewer utilities:

204 (a) Advertising which informs consumers how they can
205 conserve energy or water, reduce peak demand for electric
206 or gas energy, or reduce demand for water;

207 (e) Advertising which promotes the use of energy efficient
208 appliances, equipment or services

209 **Q. What supports your assertion that the SMS initiative was for educational purposes?**

210 A. ComEd deploys the SMS truck to areas that do not have high traffic locations or
211 community events that would make it easier to reach a larger volume of people. In these
212 situations, the SMS truck is deployed to create an event in which individuals can engage
213 in smart meter conversations more efficiently than if no event were in place. Having a
214 truck that is brightly wrapped with ComEd information clearly identifies the utility and
215 the SMS initiative and attracts people to find out more about what ComEd is offering –
216 education about the deployment and benefits of smart meters. The personal, one-on-one
217 engagement that took place during these events are effective ways to communicate
218 ComEd’s message and to ensure that the customers were able to ask specific questions in
219 order to come away with a comprehensive understanding of the impacts of smart meters.

220 This type of initiative is not unique to ComEd. Other organizations looking to
221 provide educational outreach use similar methods. For instance, in many towns, the local
222 Fire Department will “create an event” by bringing their fire engine to a location in order
223 to attract people to educate them about fire safety. Similarly, Rock the Vote, a non-profit
224 organization that educates young adults on the importance of the electoral process, also
225 creates events to get out their message. They will often put on concerts to bring people
226 together in order to educate on the importance of voting. Like ComEd, they do not put
227 on these shows to enhance their image, but rather to bring their target audience together
228 in one location in order to communicate to them in the most efficient way possible. This
229 type of method for providing educational outreach has proven to be effective.

230 Q. **What is the purpose of the SMS initiative?**

231 A. The entire initiative is built around ComEd's goal to educate customers on the benefits of
232 smart meters – specifically in places where smart meters are being deployed, where the
233 impact of the message is most meaningful. The SMS initiative utilized a truck with
234 ComEd information in strategically identified locations to draw customers into personal
235 interaction and discussions with trained ComEd educators about smart meters, their
236 benefits, and the timing of deployments occurring in that specific area. With each SMS
237 event, four educators were employed with the sole purpose of engaging customers in
238 conversations about smart meters. Specific educational messages that ComEd
239 communicated as part of the SMS initiative were as follows:

- 240 • Customers can view the Smart Meter Installation Map at
241 ComEd.com/SmartMeterMap to receive a time frame when ComEd will be in
242 their area installing smart meters;
- 243 • Smart meters securely send electricity-usage information to ComEd. This
244 helps eliminate estimated bills and the need for a meter reader to visit your
245 home;
- 246 • Customers can enroll in My Account to see their monthly usage and
247 Residential Real-Time Pricing by voluntarily shifting energy use to times
248 when there is less demand for electricity;
- 249 • Customers who have a smart meter are eligible to enroll in ComEd's Peak
250 Time Savings program and earn a credit on their electric bill when they

participate voluntarily on days with Peak Time Savings Hours. Customers
can sign up at ComEd.com/PTS;

- Customers can log into ComEd.com/MyAccount and will have the ability to
do the following:

- Track their daily electricity usage and view personalized energy
savings tips.

- Enroll to receive High-Usage Alerts by phone or email when their
electricity usage is trending higher than normal for their household.

- Sign up for Weekly Usage Reports to receive emails summarizing
their daily electricity usage, and the amount they're projected to use on
their next electricity bill.

- Customers can sign up for ComEd's Hourly Pricing Program. This program
lets customers pay the hourly market price for electricity, which means they
can save money by using electricity when prices are lower. Customers can
enroll at ComEd.com/RRTP.

Q. Was *any* part of the SMS initiative for goodwill or institutional advertising?

A. No. The purpose of the *entire* initiative was to educate customers on the benefits of smart meters. In order to draw customers into a discussion, and as a "thank you" for engaging in a discussion to learn about smart meters, ComEd provided ice cream to individuals who took part in these conversations. Mr. Bridal might be concluding that

271 providing ice cream as an incentive for customers to engage in a conversation and as a
272 “thank you” for participating in the educational discussion would be considered goodwill
273 advertising. In fact, ice cream was only given out to customers who engaged in a smart
274 meter conversation, it was not distributed as a “goodwill giveaway.” This is an important
275 distinction to make, as the ice cream provided the incentive to engage in an educational
276 conversation, and was provided only after the conversation took place – it was not done
277 to promote ComEd’s image. Nonetheless, the costs of the ice cream were removed so as
278 not to confuse or distract from the sole purpose of the initiative to provide smart meter
279 information to customers.

280 **Q. Mr. Bridal states that the descriptions of the costs incurred for SMS did not indicate**
281 **that the costs were related to AMI educational materials and therefore they are**
282 **costs that are related to unrecoverable goodwill or institutional advertising. How do**
283 **you respond?**

284 **A.** The descriptions provided in ComEd’s response to Staff Data Request RWB 2.02 (ICC
285 Staff Ex. 2.0, Attachment A) show the various aspects of the initiative that were needed
286 to “create the events” that drew people into educational conversations about smart
287 meters. It is inappropriate to conclude that the related costs must be goodwill or
288 institutional advertising simply because they were not described as “AMI educational
289 materials.”

290 It is also inappropriate to conclude that the event costs should be unrecoverable
291 because the costs weren’t all related to “materials.” The goal of the initiative was to *talk*
292 to customers by engaging them one on one, not just to hand out “materials”, as this was

deemed an effective method to have customers fully understand the benefits of smart meters. An analogy to this method might be taking the opportunity to meet face to face with someone, rather than send an email, to have an important conversation in order to impart the appropriate tone and facilitate a two-way dialog that involves asking or answering questions in real time to ensure the message is fully understood. As such, the “materials” are only one aspect of the educational message: to reinforce the conversation that occurred. However, the full event was necessary to make these effective conversations happen.

Further, only allowing the costs of the “materials” would be analogous to only allowing the costs of the “scripts” in a commercial that educates the audience on the benefits of smart meters. This would not account for the actors who provide the message, the costs to produce the commercial (e.g. writing the script, hiring the actors, procuring film-making equipment, editing the footage, etc.), or the costs for “air-time” which would provide the vehicle and method for reaching the audience. The Commission would reject that analogous result and should reject Mr. Bridal’s recommendation here as well.

C. Employee Recognition

Q. What does Staff witness Mr. Bridal (Staff Ex. 2.0, 5:110 - 9:196) propose with respect to employee recognition costs?

A. Mr. Bridal recommends an adjustment to remove approximately \$1,603,000 of expenditures that are associated with employee recognition.

Q. Should the Commission accept Mr. Bridal’s proposed adjustment?

314 A. No. Mr. Bridal states that the Commission should disallow employee recognition costs
315 because ComEd has not shown that these costs are reasonable and prudent expenditures
316 shown to enhance a customer's experience. This, too, is incorrect. As explained below,
317 this recognition is only provided for performance above and beyond what is required in
318 the ordinary course of employment, for achievements that most definitely enhance the
319 ComEd customer experience. Moreover, as also explained below, ComEd's expenditures
320 in this area are well below the average company's employee recognition expenditures.

321 Q. **As a preliminary matter, does the Act require that ComEd provide evidence**
322 **showing that employee recognition costs provide an enhanced customer experience?**

323 A. No. While I am not a lawyer, my understanding is that there is no requirement in the Act
324 that for costs to be recovered as prudent and reasonable expenditures, a clear nexus needs
325 to be made between those costs and an enhanced customer experience, which Mr. Bridal
326 suggests. The legal points that support this will be provided in briefs.

327 Q. **Nonetheless, do ComEd's employee recognition expenditures help to provide an**
328 **enhanced customer experience?**

329 A. Yes. It is well-settled that acknowledgment of an employee for hard work that goes
330 above and beyond his or her normal duties translates to a higher performing workforce
331 and positively impacts ComEd's service to its customers. The enhanced productivity that
332 results from this recognition means that the relatively minimal costs incurred were well-
333 spent and yielded positive results. Surveys, studies, and articles written by experts in
334 employee recognition programs validate this position. In a June 28, 2016 article, The
335 Business Journal stated "[r]ecognizing good work is a powerful, *cost-effective* method of

improving organizational performance – yet it is underused.” Annamarie Mann and Nate Dvorak, *Employee Recognition: Low Cost, High Impact*, Business Journal (June 28, 2016), <http://www.gallup.com/topic/recognition.aspx> (emphasis added). Additionally, according to Gallup, a well respected polling, analytics, and research firm, an analysis of more than 10,000 business units found that individuals who receive regular recognition: (1) increase their individual productivity; (2) increase engagement among their colleagues; (3) are more likely to stay with their organization; (4) receive higher loyalty and satisfaction scores from their customers; and (5) have better safety records and fewer accidents on the job. Tom Rath and Donald O. Clifton, *The Power of Praise and Recognition*, Business Journal (July 8, 2004), <http://www.gallup.com/businessjournal/12157/power-praise-recognition.aspx>. Further, Bersin and Associates provides insight into the psychology of employee recognition and why it is a prudent program to have. They say, “[r]ecognition has a physiological impact on performance” and suggest that research shows that people who have been recognized for their work “perform better and are more trustworthy at work.” Josh Bersin, *New Research Unlocks the Secret of Employee Recognition*, Forbes (June 13, 2012), <http://www.forbes.com/sites/joshbersin/2012/06/13/new-research-unlocks-the-secret-of-employee-recognition/3/#dcf85ec96a91>.

Conversely, research shows that employees who are disengaged actually cost companies money. Per an excerpt from the book “How Full is Your Bucket,” the author states that disengaged employees actually “costs the U.S. economy between \$250 and \$300 billion every year in lost productivity alone.” (This does not include other results of disengagement such as workplace injury, turnover, or fraud which could cause this

number to increase significantly). See Tom Rath and Donald O. Clifton, *The Power of Praise and Recognition*, Business Journal (July 8, 2004), <http://www.gallup.com/businessjournal/12157/power-praise-recognition.aspx>. Based on this sampling of information on the benefits of employee recognition programs, it is well known that a good employee recognition program is a prudent and reasonable expense to help drive results.

Q. How do ComEd's expenditures for employee recognition compare to other companies?

A. ComEd's expenditures in this area are well below employee recognition expenditures of other companies. According to Bersin and Associates, the average company spends about 1-2% of the size of its payroll on employee recognition programs. Josh Bersin, *How the Trust Hormone Drives Business Performance*, Forbes (April 30, 2012), <http://www.forbes.com/sites/joshbersin/2012/04/30/how-the-trust-molecule-drives-business-performance/#17119ce52f13>. In 2015, ComEd spent approximately \$1.8 million (non-jurisdictional) on employee recognition (ICC Staff Ex. 2.0, Attachment B, sum of line 4, columns B, C, D and E) as compared to approximately \$883.9 million (non-jurisdictional) of salaries and wages (see ComEd FERC Form 1, page 355, line 96, column d). This means ComEd's employee recognition program was approximately 0.20% of the size of its payroll – well below the average, and evidence of the reasonableness of ComEd's expenditures.

Q. Do you have examples of recognition provided to ComEd employees in 2015 that illustrate the type of results-based performance that ultimately benefits customers?

381 A. Yes. While ComEd does not historically track the reason for each employee recognition
382 award in a central repository, through discussions with management in several
383 departments, I can provide the following examples of the types of awards and recognition
384 that were given in 2015 for which the costs are included in the amount that Mr. Bridal is
385 proposing to disallow:

386 (1) During a weekend in February 2015, several emergent issues arose that were
387 related to outages for customers. The on-duty employees did not have the
388 capacity to handle all of the emergent work on their own. Thirteen off-duty
389 employees volunteered their weekend time in order to decrease the amount of
390 time that it took to remedy the emergent issues and help restore service to
391 customers in a timelier manner. In recognition for their exceptional effort, each
392 employee was awarded a \$150 gift card.

393 (2) Five employees were tasked with a set of grid resiliency projects that were
394 completed in less than one year, where normal planning and execution takes 18
395 months or more. As a result, system performance and material condition concerns
396 were addressed earlier than under normal circumstances, improving reliability and
397 benefiting customers. Each of the five employees was provided a \$200 award for
398 their efforts.

399 (3) A team of twenty-one employees exceeded their metric goals as it related to
400 Energy Infrastructure Modernization Act ("EIMA") work – specifically the

401 replacement of URD cable, mainline cable and poles, installation of distribution
402 automation devices, completion of smart substations, and refurbishment of
403 manholes. 18/24 metrics exceeded the targets for their work, which, considering
404 the volume of work to be executed, was well beyond the normal expectation of
405 the team. The completion of the work not only benefited customers with
406 enhanced reliability, but that reliability was provided well ahead of schedule so
407 that the Company could deploy these resources on other work. A \$5,750 award
408 was distributed across the team of employees for their exemplary performance
409 (approximately \$275 per person, on average).

410 (4) Components of ComEd's Supervisory Control and Data Acquisition ("SCADA")
411 system that are protected as critical cyber assets under NERC CIP regulations
412 required upgrades in support of the Windows Server 2003 retirement. The team
413 of employees who worked on this upgrade spent hundreds of hours of unpaid
414 overtime over the course of nine months to acquire the new technology, build the
415 prototype to standard, extensively test the new components, ensure that all of the
416 cyber security controls were applied and collect all evidence of compliance to
417 NERC CIP regulations.

418 The end result was that this project was completed without a single
419 unplanned outage to the system, ahead of schedule, and that the project enhanced
420 the operation and security of critical components of the ComEd SCADA

system. In recognition of their effort for saving the Company millions of dollars in costs that would have otherwise been paid to Microsoft for continuing support beyond the “end of support date” and by completing the project ahead of schedule, saving the company further resource outlays, each employee was awarded \$500.

D. Business Service Company Costs

Q. In response to AG Data Requests 5.05 (Staff Ex. 2.0, Attachment D) and AG 11.07 (Staff Ex. 2.0, Attachment E), ComEd noted that \$529,000 and \$5,000, respectively, of jurisdictional BSC costs were inadvertently included in Administrative and General (“A&G”) FERC Account 923 in this proceeding. Have adjustments been made to remove these costs?

A. Yes. ComEd has updated ComEd Ex. 9.02, WP 7, Page 2, Lines 37 and 38 to remove these costs, resulting in an overall decrease to the revenue requirement of \$1,145,000.

E. Regulatory Commission Expense

Q. Has ComEd discovered any billing entries that were not related to rate case expenses incurred in 2015?

A. As stated in my direct testimony (ComEd Ex. 2.0, 49:1011-1018) ComEd identified an invoice totaling \$1,564.68 that is more correctly allocated to non-rate case matters which ComEd has now removed from the revenue requirement. This adjustment is reflected in ComEd Ex. 9.02, WP 7, Page 2, Line 17.

Q. Does Staff recommend any other Regulatory Commission Expense adjustments?

442 A. Yes. Staff witness Mr. Bridal recommends additional regulatory commission expense
443 adjustments of \$538. Of that amount, \$125.98 was already specifically stated in my
444 direct testimony (ComEd Ex. 2.0, 49:1011-1018) as being related to certain billing entries
445 that ComEd would not seek recovery of. In order to limit the issues in this case and
446 without waving its right to contest other proposed disallowances based on similar
447 arguments in this or any other proceeding, ComEd agrees to reduce the amount of costs
448 for which ComEd is seeking recovery as it relates to the additional regulatory
449 commission expense adjustments that Mr. Bridal recommends. This adjustment, and the
450 regulatory commission expense adjustment discussed earlier in my testimony have been
451 made to ComEd Ex. 9.02, WP 7, Page 2, Line 17 and together reduce ComEd's revenue
452 requirement by \$6,000.

453 **V. OTHER ISSUES**

454 **A. Cost of Capital**

455 **Q. Staff witness Ms. Freetly has proposed an adjustment to the balances of the**
456 **components of the capital structure. Do you agree with this proposal?**

457 A. I agree with Ms. Freetly's calculation methodology; however, I am not in agreement with
458 the net amount of outstanding CWIP accruing AFUDC that should be subtracted from the
459 long-term debt and common equity components in determining the cost of capital.

460 **Q. Can you please explain?**

461 A. ComEd concurs with Ms. Freetly's suggestion that to avoid double counting the portion
462 of CWIP accruing AFUDC that was applied to short-term debt, only the balance of CWIP

463 accruing AFUDC that remains after accounting for short-term debt should be removed
464 from the long-term capital and common equity components of the capital structure.

465 ComEd's balance of CWIP accruing AFUDC for the year ending December 31,
466 2015 was \$509,294,000. Of this balance, \$262,358,000 was applied to short-term debt,
467 resulting in a net short-term debt balance of \$32,144,000. Therefore, the remaining
468 amount of CWIP accruing AFUDC after applying a portion of the balance to short-term
469 debt is \$246,936,000 (\$509,294,000 less \$262,358,000). This is the amount that should
470 be allocated proportionately to long-term debt and common equity as Ms. Freetly's
471 methodology suggests.

472 **Q. What amount of CWIP accruing AFUDC does Ms. Freetly suggest applying to long-**
473 **term debt and common equity within the capital structure calculation?**

474 **A.** Ms. Freetly recommends using an amount of \$214,792,000 as the remaining amount of
475 CWIP accruing AFUDC to apply to long-term debt and common equity. This amount is
476 included in Schedule D-2, line 1, column F and was likely used by Ms. Freetly under the
477 assumption that this number represented the remaining CWIP accruing AFUDC after
478 applying a portion of the balance to short term debt. While ComEd agrees that the
479 balance in Schedule D-2, line 1, column F *should* represent the remaining CWIP accruing
480 AFUDC after applying a portion of short-term debt, it actually represented the balance of
481 CWIP accruing AFUDC if the *entire* short-term balance had been reduced by CWIP
482 accruing AFUDC. As such, ComEd has made an adjustment within Schedule D-2, line 1,
483 column F to represent the net amount of CWIP accruing AFUDC remaining after a
484 portion of the balance was applied to short-term debt. See ComEd Ex. 9.03, Schedule D-

2, line 1, column F. In addition, ComEd has updated Schedules D-1 RY and D-1 FY to reflect the changes in long-term debt and common equity as suggested by Ms. Freetly's methodology to avoid double counting CWIP accruing AFUDC that has already been applied to short-term debt. See ComEd Ex. 9.03, Schedule D-1 RY and ComEd Ex. 9.05, Schedule D-1 FY.

Q. Do you agree with Ms. Freetly that this change to the cost of capital calculation does not affect ComEd's proposed rate of return on rate base?

A. Yes, I agree.

B. Cost of Long-Term Debt

Q. Staff witness Ms. Freetly has proposed adjustments to the unamortized discount balances and unamortized debt expense related to debt issuances made during 2015 and included in ComEd Ex. 9.03, Schedule D-3 (Staff Ex. 3.0, 4:62-5:91). How do you respond?

A. Both ComEd and Staff agree that these adjustments are not necessary. Please see Staff's response to ComEd-Staff 3.01 data request (ComEd Ex. 9.11).

C. Rider NAM

Q. Is ComEd aware of any adjustments that need to be made to the revenue requirement for "Other Revenue" related to Rider NAM?

A. Yes. ComEd identified that revenue related to Rider NAM was not included as part of the revenue requirement adjustment for "Other Revenue" in its direct filing. Rider NAM relates to the monthly charges applicable to a retail customer for which the Company provides non AMI metering after the date on which the AMI metering part of the

Schedule of Rates becomes applicable to the retail customer. In ComEd Ex. 9.02, WP 10, Line 57, Column E and ComEd Ex. 9.01, App 10, Line 57, Column F adjustments have been made to correctly include this revenue. The adjustment reduces the net revenue requirement by \$1,487,000.

D. W&S Allocator for Rider PE and Rider BESH

Q. Has Staff made any recommendations in their direct testimony concerning the wages and salaries (“W&S”) allocator that should be used in determination of rates under Rider PE and Rate BESH?

A. Yes. In his direct testimony, Staff witness Mr. Tolsdorf recommends the following language (Staff Ex. 1.0, 17:343-352) be included in the Order entered by the Commission in this proceeding: “The Commission finds that the wages and salaries allocator applicable to supply of 0.40%, as calculated in this proceeding, should be used to develop charges determined and filed with the Commission under Rider PE and Rate BESH to be effective with the January 2017 monthly billing period. Subsequent calculations of the wages and salaries allocator applicable to supply made in subsequent ComEd Formula Rate Update proceedings must be applied in the corresponding subsequent determination and filing of charges under Rider PE and Rate BESH.”

Q. Does ComEd agree with the above recommended language to be included by the Commission in the Order?

A. Yes. ComEd agrees with including the recommended language in the Order.

E. Original Cost Determination

Q. In your direct testimony (ComEd Ex. 2.0, 14:295-15:319), you advocated that the Commission make an Original Cost Determination of \$18,433,588,000 and Staff witness Mr. Tolsdorf (Staff Ex. 1.0 at 12:240-259) agreed with this recommendation in his direct testimony. Are there any updates to this amount?

A. Yes. Due to the adjustments to the facilities and net plant allocators recommended earlier in my testimony, the original cost determination has also been adjusted by \$2,427,000 from the amount provided in my direct testimony. This adjustment accounts for the change in jurisdictional general and intangible plant after applying the correct facilities allocator. As such, ComEd requests that the Commission approve the original cost of plant in service as of December 31, 2015 of \$18,436,015,000. The updated original cost calculation is summarized in the table below:

2015 Original Cost Calculation
(in 000s)

	<u>Amount</u>	<u>Source</u>
1 Distribution Gross Plant	\$ 16,579,604	FR B-1, Line 1
2 Distribution Asset Retirement Costs	\$21,090	FR B-1, Line 2
3 Jurisdictional G&I Plant Before Adjustments	\$1,925,405	FR B-2, Line 18
4 Line 1 - Line 2 + Line 3	<u>\$ 18,483,919</u>	
5 Prior Docket Adjustments	\$21,496	App 1, Line 3
6 Adjustments - Assets Base Recovered in Riders	\$23,543	App 1, Lines 2, 11 and 13
7 2015 Test Year Adjustments	\$2,865	App 1, Line 4
8 Line 5 + Line 6 + Line 7	<u>\$47,904</u>	
9 Original Cost	\$ 18,436,015	Line 4 - Line 8

539 **VI. CONCLUSION**

540 **Q. Does this conclude your rebuttal testimony?**

541 **A. Yes.**